This Defensive Stock Pays a Juicy 6.3% Dividend Yield: Should You Buy for 2023?

Description

Rogers Sugar (TSX:RSI) stock is an interesting high-yield dividend stock for investors to consider buying for passive income in 2023. It's the largest single supplier of sugar in Canada, a profitable consumer staple food ingredient that won't go out of fashion soon. It pays a dividend that yields 6.3% annually. Shares held their own in a troublesome 2022. However, RSI stock has two undesirable aspects investors should consider this year before deciding to buy the TSX dividend stock.

The company runs a proven 135-year-old, proven sugar-refining business. It reported record volumes in 2022 and posted its highest-ever adjusted earnings before interest, taxes, depreciation, and amortization expenses (adjusted EBITDA) last year. But 2023 could be different.

Rogers Sugar's opportunistic growth may not be sustained in 2023

Rogers Sugar reported record sugar shipment volumes of 794,600 metric tonnes for the fiscal year 2022. the year closed on October 1, 2022. Sugar volumes have been steadily rising each year, up from 719,875 metric tonnes in 2018. However, volume growth in 2022 was opportunistic.

The company shipped 5,000 metric tonnes of sugar last year, which was not planned for after a rumoured operational challenge at its competitor. As such, management recently guided for sugar volumes to fall by a similar magnitude to 790,000 metric tonnes this year. The company doesn't expect the tight market supply experienced in 2022 to persist.

That said, there's a glimmer of hope for Rogers Sugar in the near term. The domestic market for sugar is growing, as new customers emerge. Market chatter has it that companies that process sugar-rich food products for the export market seem attracted to low-cost Canadian sugar. New production plants are being built locally. More demand is coming for Rogers Sugar's annual production, and thecompany anticipates selling 10% less sugar to the export market in 2023, as it focuses on supplyingthe domestic market.

Perhaps there's some growth potential after all. The company is in the planning stages for a $160 million expansion project that should increase productive capacity by about 100,000 metric tonnes. There seems to be growing interest in the uptake of the new production.

Watch the struggling maple segment closely

Although Rogers Sugars competes with a privately held Redpath Sugar Ltd. in the sugar segment, its maple products segment faces a heavily controlled, and highly competitive market that has been a source of financial pain lately.

Rogers Sugar delivered 47,063 thousand pounds of maple products in Fiscal 2022. Volumes declined from a peak of 53,180 thousand pounds in 2020. Sales weakened in 2022 because of intense competition after a bumper harvest. A new financial player entered the maple syrup market last year. there was a bumper harvest of maple syrup in 2022 which increased supply, and price competition was strong during the year.

Inflation skyrocketed and the company struggled to pass through growing operating costs to customers as quickly as it wished. Maple sales volumes declined, margins suffered, and the company wrote off $50 million in goodwill related to prior acquisitions in the maple segment — almost wiping off the entire goodwill balance on its maple business assets.

Encouragingly, the company may see maple sales rebound in 2023, as inflation recedes and new contract prices kick in. However, the market remains highly competitive, and some market players may wish to gain market share through price competition. The fact that Rogers Sugar wrote off segment goodwill almost completely tells a concerning story — revenue and earnings growth will be hard to come by.

Should you invest?

Rogers Sugar pays a nice $0.09 a share quarterly dividend that yields 6.3% annually which is good for passive income. Shares can perform well in a dividend strategy. However, investors in RSI stock may not witness much revenue and earnings growth in the near term.

The company's announced $160 million, 100,000 metric tonne expansion project, which is still in the planning stage, may be financed with more debt or a new equity raise. Both options may drag RSI's stock price down. That said, shares seem fairly valued with a forward market cap-to-free cash flow multiple of 13.08 times, which lies below a five-year average of 15.18 times. Perhaps shares trade cheaply today.

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